

**Management Advisory Report: Progress Was
Made to Provide Taxpayers With Correct
Answers to Tax Law Questions**

August 2002

Reference Number: 2002-40-161

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

August 30, 2002

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Pamela J. Gardiner
Acting Inspector General

SUBJECT: Final Management Advisory Report - Progress Was Made to
Provide Taxpayers With Correct Answers to Tax Law Questions
(Audit # 200240053)

This report presents the results of our review to determine if the Internal Revenue Service (IRS) provides accurate and timely responses to taxpayers' tax law questions. In addition, we assessed whether IRS employees were professional and courteous to Treasury Inspector General for Tax Administration (TIGTA) auditors who made anonymous visits to the Taxpayer Assistance Centers (TACs). We also evaluated the adequacy of accommodations for issues such as space, privacy, and cleanliness and determined if the correct office hours were posted in the TACs.

This review was conducted as a result of an amendment to the Treasury spending bill¹ for Fiscal Year (FY) 2002 proposed by Senator Byron Dorgan, (Democrat-North Dakota), Chairman of the Subcommittee on Treasury and General Government. The amendment required the TIGTA to conduct visits to all TACs and report to the Congress on whether taxpayers are provided correct and prompt answers to their questions. We will conduct anonymous visits to all TACs over a 2-year period. This is the third in a series of bi-monthly reports that we will issue in response to the amendment to the Treasury spending bill.

During May and June 2002, our auditors made 76 anonymous visits to 39 TACs.² The auditors asked 156 tax law questions and determined that IRS employees are not providing correct answers to some tax law questions. For example:

- Eighty-eight (56 percent) of the 156 questions were answered correctly.

¹ Treasury and General Government Appropriations Act, 2002 H.R. 2590.

² One auditor visited two TACs and asked four questions.

- Thirty-six (23 percent) of the 156 questions were answered incorrectly.
- Thirty-two (21 percent) of the 156 questions resulted in the IRS employee referring the auditor to IRS publications and generally advising the auditor to do his or her own research to find the answer to the question.

In addition, we observed the following during our visits to the TACs:

- Office hours were not posted for 17 (44 percent) of the 39 TACs shown on the IRS website. (Office hours posted at one TAC site were not the same as the hours posted on the website.)
- Taxpayer privacy was not adequate in 21 (57 percent) of 37 TACs we visited. (Auditors were unable to assess the adequacy of privacy at two TACs because they were assisted in the receptionist area.)
- The TACs were clean in 39 (100 percent) of 39 sites we visited.
- The TACs were organized in 33 (85 percent) of 39 sites we visited.
- IRS employees were professional and courteous to the TIGTA auditors in 71 (93 percent) of the 76 visits.
- Wait-time for service was 30 minutes or less for 62 (82 percent) of the 76 visits.

We will not make formal recommendations to the IRS in the bi-monthly reports. However, we plan to issue semi-annual trend reports that may include appropriate recommendations to help ensure taxpayers are provided accurate responses to their tax law questions. Our auditors will continue making visits to the TACs throughout Calendar Years 2002 and 2003. We will also continue to issue bi-monthly reports on our results to the IRS and the Congress.

Management's Response: The IRS continues to disagree with our method of reporting referrals to publications when computing the accuracy rate. However, based on our May and June visits to TACs, the IRS has taken additional steps to address improper referrals to publications. Beginning in July, IRS managers conducted exit interviews of taxpayers as they left the TACs to determine the level of service received. This also identified improper referrals. Managers also shopped TACs other than their own to ask questions. Both actions provided immediate feedback.

The IRS Quality Review Staff also began TAC visits in July 2002 to baseline quality for account inquiries and tax return preparation. They are also measuring professionalism and courtesy. Early results show that, in almost all cases, employees were professional and courteous. The IRS' official results will be available in late August.

Management's complete response to the draft report is included as Appendix V.

Office of Audit Comment:

As with their response to our first in this series of bi-monthly reports, IRS management continues to believe that the statistics cited in our report do not reflect the accuracy of

the IRS' answers. Specifically, they do not believe that referrals to publications should be included in computing the accuracy rate. We disagree. As we previously stated, we do not believe that simply referring taxpayers to a publication to do the research themselves ensures a correct answer nor do we believe it qualifies as successful customer service.

Copies of this report are also being sent to the IRS managers who are affected by the report. Please contact me at (202) 622-6510 if you have questions or Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 927-0597.

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Background

The Senate Committee on Appropriations was deeply concerned about the findings in a Treasury Inspector General for Tax Administration (TIGTA) audit report on the Internal Revenue Service's (IRS) Taxpayer Assistance Centers (TAC).¹ This report showed that our auditors did not receive accurate or sufficient answers to 73 percent of their tax law questions posed during anonymous visits to the TACs during January and February 2001. Based on these results, Senator Byron Dorgan (Democrat-North Dakota), Chairman of the Subcommittee on Treasury and General Government, proposed an amendment to the Treasury spending bill² for Fiscal Year (FY) 2002. The amendment required the TIGTA to conduct visits to all TACs and report to the Congress as to whether taxpayers are provided correct and prompt answers to their questions. We will conduct anonymous visits to all TACs over a 2-year period.

The IRS' Field Assistance (FA) office in the Wage and Investment (W&I) Division has overall responsibility for the TACs. The TACs exist primarily to serve taxpayers who choose to seek help from the IRS in person. The IRS employees³ who work in the TACs provide assistance in interpreting tax laws and regulations, preparing some tax returns, resolving inquiries on taxpayer accounts, and providing various other services designed to minimize the burden on taxpayers in satisfying their tax obligations. There are currently no statistics on the percentage of time spent by employees in the TACs on the various services detailed above. The FA office is using FY 2002 as a baseline to establish standards and other management information in this area.

¹ *Letter Report: The Internal Revenue Service Continues to Give Incorrect Tax Law Information in Taxpayer Assistance Centers* (Reference Number 2001-40-077, dated May 2001).

² Treasury and General Government Appropriations Act of 2002, Pub. L. No. 107-67.

³ IRS employees who work in the TACs are called Tax Resolution Representatives.

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There are 414 TACs located throughout the United States, including Washington, D.C. During FY 2001, the TACs served approximately 9.3 million taxpayers.⁴

In addition to the anonymous visits being performed by our auditors, the IRS has hired an outside contractor to anonymously visit its TACs and ask two tax law questions per visit. The contractor visits began in October 2001. The IRS provided the contractor with four questions to choose from on the following topics:

- Earned Income Tax Credit (EIC).
- Dependents.
- Education Credits.
- Social Security Benefits.

Our auditors performing anonymous visits to the TACs also ask two questions during each visit, one of which was a question provided by the IRS to its contractor. The remaining question asked was selected from those we developed which relate to 22 tax law topics that are within the scope of topics that TAC employees should have been trained to answer. The TIGTA questions were designed to cover a wide range of tax law topics in order to provide an overall assessment on whether taxpayers are receiving correct answers to questions that an individual taxpayer⁵ might ask when he or she visits a TAC. In May 2002, we changed the scope of the questions or added additional scenarios that were more applicable to the types of questions taxpayers ask after the filing season.⁶

This report is the third in a series of bi-monthly reports that we will issue on the results of our visits to the TACs. The review was conducted in the IRS' Customer Assistance, Relationships, and Education office in the W&I Division in May and June 2002. Our auditors anonymously visited

⁴ The IRS provided the number of taxpayers that were served. We did not verify the accuracy of the number.

⁵ Individual taxpayers are non-business taxpayers who file United States Individual Income Tax Returns (Forms 1040, 1040A, or 1040EZ).

⁶ The IRS defines the filing season as the first half of each calendar year when individuals file their tax returns.

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39 TACs in 6 states (see Appendix IV for specific states visited).

This review was conducted in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*. Detailed information on our objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Taxpayers Are Receiving Incorrect Answers to Tax Law Questions

IRS employees did not always provide correct answers to the tax law questions asked by our auditors. The results for the 156 tax law questions were as follows:

- Eighty-eight (56 percent) of the 156 questions were answered correctly. In 25 of the 88 questions, the IRS employee provided a correct answer without asking all of the required questions outlined in the tax law instructions and publications. This also included 15 questions where the IRS employee provided the correct answer but gave the taxpayer the wrong reason. For example, the IRS employee stated that a daughter could not be claimed as a dependent because she did not meet the residency test of staying in the home for the entire year. The correct answer for the scenario our auditors were presenting was that the daughter could not be claimed as a dependent because she earned more than the maximum amount allowed in income and was not a full-time student. The residency test in this scenario was not a factor in determining if the daughter qualified as a dependent.
- Thirty-six (23 percent) of the 156 questions were answered incorrectly. For example, an IRS employee stated that the auditor could claim the EIC because he met the income and age tests. The correct answer was the auditor could not claim the EIC because his filing status was married filing separate.
- Thirty-two (21 percent) of the 156 questions resulted in the IRS employee referring the auditor to a publication and generally advising the auditor to do his or her own research to find the answer to the question. For example:

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- An IRS employee provided an auditor a copy of *Scholarships and Fellowships* (Publication 520) and told the auditor to read it and determine if he could come up with the answer on his own. The auditor was further told to return to the TAC and speak with a specific IRS employee who handled technical questions if he could not find the answer in the publication.
- An IRS employee provided an auditor a publication and explained that if he wanted a detailed answer, the auditor would have to visit the TAC earlier in the day. The IRS employee told the auditor that he was in the “quick answer” line.
- An IRS employee assisted auditors in the receptionist area during four visits. The auditors were given publications and instructed to complete their own research.

The tables below provide a complete breakdown of the accuracy of questions answered for the universe as well as the individual IRS and TIGTA accuracy rates.

IRS Contractor and TIGTA Questions (156 questions asked)					
	Correct	Correct but Incomplete	Incorrect	Ref. to Pub.	Service Denied
Responses	63	25	36	32	0
Percentages	40%	16%	23%	21%	---

Source: Anonymous visits performed by TIGTA auditors.

IRS Contractor Questions (77 questions asked)					
	Correct	Correct but Incomplete	Incorrect	Ref. to Pub.	Service Denied
Responses	39	13	12	13	0
Percentages	51%	17%	16%	17%	---

Source: Anonymous visits performed by TIGTA auditors.

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TIGTA Questions (79 questions asked)					
	Correct	Correct but Incomplete	Incorrect	Ref. to Pub.	Service Denied
Responses	24	12	24	19	0
Percentages	30%	15%	30%	24%	---

Source: Anonymous visits performed by TIGTA auditors.

Accommodations at Taxpayer Assistance Centers Could Be Improved

During our visits, we assessed the adequacy of accommodations in the TACs, including items such as space and privacy. We also determined if the correct office hours were posted in the TACs.

We determined that taxpayer privacy was not always protected. In 21 (57 percent) of 37⁷ TACs visited, the floor plan did not allow for taxpayer privacy. If several taxpayers were in line waiting for service, the next person in line could easily overhear the conversation between the IRS employee and the taxpayer being served. For example:

- A taxpayer's Social Security Number (SSN) was overheard. A TIGTA auditor overheard an IRS employee leave a telephone message with another IRS office. The message included the taxpayer's SSN, telephone number, and a description of the tax issue.
- A taxpayer's SSN was seen when the IRS employee placed a slip of paper with the SSN down on the desk. The auditor was able to write down the SSN.

Also, 17 (44 percent) of 39 TACs did not have office hours posted on the IRS website. In one (3 percent) of the 39 TACs visited, posted office hours were not the same as the office hours shown on the IRS' website. The table below shows a breakdown of our TAC site accommodation results.

⁷ Auditors were unable to assess the adequacy of privacy at two TACs because they were assisted in the receptionist area of the site.

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TAC Site Accommodations (39 TACs visited)		
	Occurrences	Percentages
TAC Site Address Correct	38	97%
TAC Site Office Hours Correct ⁸	21	95%
TAC Site Clean	39	100%
TAC Site Organized ⁹	33	85%
TAC Site Space Adequate ¹⁰	16	43%
TAC Site With Security ¹¹	23	59%

Source: Anonymous visits performed by TIGTA auditors.

Auditors Had Positive Experiences When They Visited Taxpayer Assistance Centers

During our visits to the TACs, we assessed whether IRS employees were professional and courteous. We also assessed the wait-time for service and the cleanliness of the TAC. We had some positive experiences. For example:

- The IRS employees assisting us were professional and courteous in 71 (93 percent) of the 76 visits. During three visits, auditors observed an IRS employee using an interpreter to assist Spanish-speaking taxpayers.
- The wait-time for service was 30 minutes or less in 62 (82 percent) of the 76 visits.

⁸ Hours posted at the TAC site matched the hours posted on the IRS' *Digital Daily* Internet site. This figure is based on only 22 sites because 17 sites did not have hours posted on the Internet.

⁹ The TACs were considered organized if they were free from clutter, publications/forms were in the correct bins, correct signs directed taxpayers to the appropriate areas for assistance, and chairs were neatly arranged.

¹⁰ The TACs' space was considered inadequate if taxpayer privacy was a concern or the space could not accommodate the number of taxpayers in the TAC at the time of the auditor's visit. Auditors were unable to assess taxpayer privacy at two TACs because they were assisted in the receptionist area.

¹¹ The TACs had security personnel on site.

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- Thirty-nine (100 percent) of the TACs visited were clean and 33 (85 percent) were organized.

The tables below show a breakdown of our quality of assistance results.

Quality of Assistance – Wait-Time (39 TACs visited, 2 auditors per site) ¹²		
	Occurrences	Percentages
0 to 15 Minutes	48	63%
16 to 30 Minutes	14	18%
31 to 45 Minutes	7	9%
46 Minutes to 1 Hour	5	7%
Greater Than 1 Hour	2	3%

Source: Anonymous visits performed by TIGTA auditors.

Quality of Assistance – Miscellaneous (39 TACs visited, 2 auditors per site) ¹²		
	Occurrences	Percentages
Employee Name Given/Visible	56	74%
Employee ID Number Given/Visible	54	71%
Employee Name <u>Not</u> Provided When Requested	0	---
Employee Professional/Courteous	71	93%

Source: Anonymous visits performed by TIGTA auditors.

¹² One auditor visited two TACs and asked four questions.

Detailed Objective, Scope, and Methodology

The overall objective of the review was to determine if the Internal Revenue Service (IRS) provides accurate and timely responses to taxpayers' tax law questions. In addition, we assessed whether IRS employees in the Taxpayer Assistance Centers (TACs) were professional and courteous to our auditors who made anonymous visits to the TACs. We also evaluated the adequacy of the accommodations for issues such as space, privacy, and cleanliness and determined if the correct office hours were posted in the TACs.

To achieve this objective, we performed the following tests:

- I. Determined if the IRS provided quality service and accurate responses to tax law inquiries at the 39 TACs visited. We asked 156 tax law questions that an individual taxpayer¹ might ask. The 156 questions included 77 questions that are being used by the IRS' contractor. We developed the remaining questions based on the training provided to Tax Resolution Representatives (TRR) during the fall of 2001 and the scope of services for tax law assistance prescribed in the Fiscal Year 2002 Field Assistance Operating Procedures.
- II. Determined the quality of service provided by the TRR.
- III. Determined if accommodations in the TACs visited were suitable to provide quality customer service.

¹ Individual taxpayers are non-business taxpayers who file United States Individual Income Tax Returns (Forms 1040, 1040A, or 1040EZ).

Major Contributors to This Report

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Appendix III

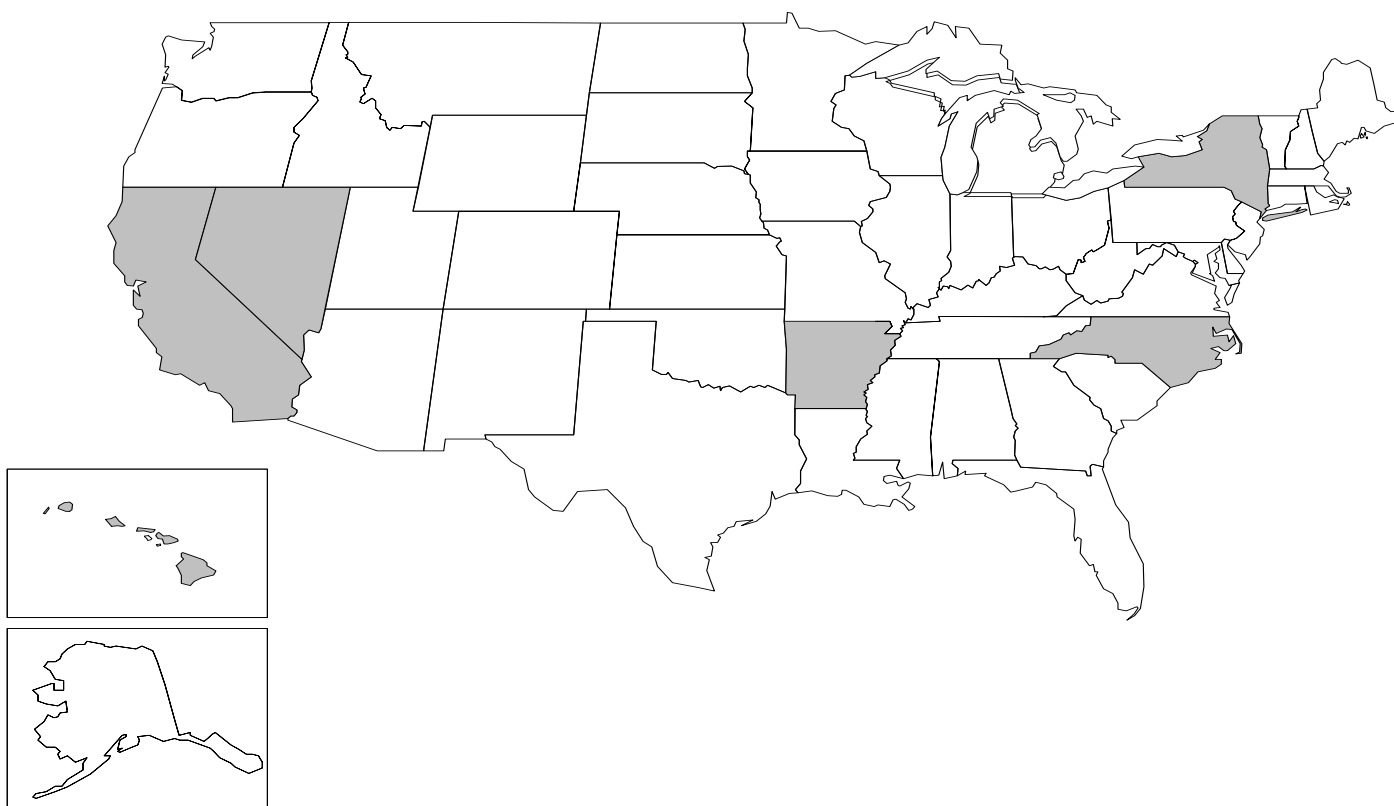
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Appendix IV

States Visited During May and June 2002



The six states visited include: Arkansas, California, Hawaii, Nevada, New York, and North Carolina.

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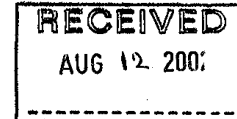
Appendix V

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

August 12, 2002



MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR
TAX ADMINISTRATION

FROM:

John M. Dalrymple
John M. Dalrymple
Commissioner, Wage and Investment Division

SUBJECT:

Draft Management Advisory Report – Progress Was Made
to Provide Taxpayers with Correct Answers to Tax
Law Questions (Audit # 200240053)

We appreciate your feedback and want to update you on our latest efforts to improve the accuracy rate of responses to tax law questions in our Taxpayer Assistance Centers (TAC). Although your bi-monthly reviews for the current year report improved rates in each period, I believe the statistics you cited do not show the accuracy of our answers. As I stated previously in my response to your bi-monthly reviews, I disagree that referrals to publications should be included when computing the accuracy rate. I also disagree that making those referrals is the same as providing an incorrect answer. Excluding the references to publications, our accuracy rates are 74% for May and 68% for June. The two-month average becomes 71% versus the 56% you reported.

Based on your May and June visits to 39 TAC offices, we have taken additional steps to address improper referrals to publications. Beginning in July, managers conducted exit interviews of taxpayers as they left the TAC to determine the level of service received. This also identified improper referrals. Managers also shopped TACs other than their own to ask questions. Both actions provided immediate feedback. The exit interview questions asked customers:

- If they received a satisfactory answer to their question
- If they were shown in the publication where to find the answer
- If a copy of the publication was offered

Our Quality Review Staff also began TAC visits in July to baseline quality for account inquiries and tax return preparation. They are also measuring professionalism and courtesy. Early results show that, in almost all cases, employees were professional and courteous. Official results will be available in late August.

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If you have any questions or need additional information, please contact me at (202) 622-6860 or members of your staff may contact Jerald Heschel, Director, Field Assistance, at (404) 338-7141.